

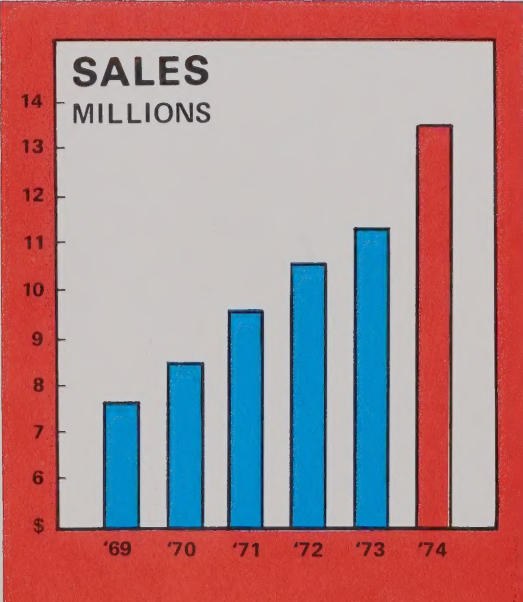
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CanCorp



1974 Annual Report

Results . . . at a glance



ROYAL OAK DAIRY, LIMITED

ANNUAL REPORT

1974

FINANCIAL HIGHLIGHTS

	1974	1973	1972	1971	1970	1969
Sales	13,489,568	11,148,336	10,401,596	9,439,000	8,334,000	7,441,000
Net Profit from operations	268,193	221,368	190,255	173,000	79,000	38,000
Earnings from operations per share						
Class A	8.27	6.58	5.07	4.62	2.11	1.00
		(7.47 after extraordinary item)				
Class B						
& Common	.74	.62	.56	.50	.19	.05
		.72 (after extraordinary item)				
Equity per outstanding Share	3.17	2.89	2.57	2.30	2.08	1.90

ROYAL OAK DAIRY, LIMITED

DIRECTORS' REPORT

TO THE SHAREHOLDERS

The year covered by this report was marked by record sales in all divisions of the company, by the acquisition of the Astro Variety chain and by the opening of eight new stores. The year was also marked by severe inflation, sharply rising costs and an illegal strike at the Dairy. Despite these, undiluted net earnings per Class B or C share increased from .62¢ to .74¢. This improvement was entirely through Bantam store profitability. On the strength of this growth, the directors have declared quarterly Class B and C share dividends, payable to shareholders of record April 30, 1975, of 4¢. If a Class A share were converted into six Class B shares this quarterly dividend would be 24¢.

Dairy Division

Dairy division sales were up 12% in dollars, but overall volume was the same as 1973 so the increase was inflationary. Costs have risen sharply. Raw product, mainly milk, increased 38% over the year and containers, 23%. We have held the increased costs of dairy operations to 24% so that profitability did not erode.

There are major changes underway in the milk marketplace. Fluid milk sales are normally price "elastic", with volume recovering after price increases; 1974 showed us the exception to this rule. Consumption declined after the retail price increase of 6¢ a quart on October 21st and did not recover much in November or December. Consumers are using less fluid milk. Through the Ontario Milk Marketing Board, producers are able to recover their rising expenses, shielded somewhat from the workings of the marketplace, but dairies are entirely exposed. With declining consumption fixed costs loom larger. With declining consumption, there is excess processing capacity. Wholesale competition has become much sharper. We are nevertheless confident of our ability to maintain corporate earnings despite these pressures.

Late in 1974, we negotiated a private label milk supply for a large grocery chain. Feeling that this threatened job security, some of our men set up a wildcat picket line which was honoured by other employees. Two sales days were lost, as well as our new customer.

We have made some staff changes. Mr. McLeod resigned in October; Allen Darby is retiring but will continue as a consultant and director. Carl White, formerly with Canada Bread, has joined us as Vice-President of Sales and Norman Stimers from Trailmobile, Brantford, is Corporate Controller. John Crofton has been appointed President, Bantam Stores Ltd. and Leo Vallee is now Manager of Engineering at Royal Oak. The composition of the executive group (Note 1) has thus changed considerably.

Retail Store Divisions

Bantam management increased sales by 21.5%, a record for us and certainly far in excess of inflationary price increases. Management was able to increase the gross margin and as a

ROYAL OAK DAIRY, LIMITED

result of these two factors, after tax earnings nearly doubled. During the year we opened five new Bantam stores, sold two as going concerns and closed two for a net increase of one. We bought three Astro stores and opened three more, one of which is in Toronto. These six would have been profitable but for a continued loss of inventory out of two of the original stores. We believe that we have stemmed these losses and we expect Astro to be profitable in 1975. Our venture with Bantam-Shell self-serve gas stations has been successful. The gasoline sales have been high, beyond our expectations, and the cross merchandising between the store and the pumps works well. The newest of these three gas outlets is in St. Catharines.

1975

The outlook for 1975 is clouded by uncertainties. I need hardly remind shareholders that the high sales and earnings in this report must be viewed in an inflationary economy. The higher costs of replacement inventories cannot always be met with supplier's credit and a larger proportion of our earnings must be retained for these and for fixed asset requirements, for example for new store equipment. But even in this light and in constant dollars, the year's results are adequate. Your directors are confident that our management has been strengthened and that this strength will result in the continued steady growth of your company.

On behalf of the Board of Directors,

March 19, 1975
Hamilton, Ontario

D. R. Hamilton
President

DIRECTORS

R. W. Greenwood, Burlington
F. W. Hamilton, Ancaster
D. R. Hamilton, Burlington
W. G. Lumsden, Burlington

D. A. C. Martin, Q. C., Hamilton
J. W. A. Darby, Stoney Creek
J. A. Crofton, Willowdale
W. P. Pigott, Ancaster

OFFICERS

Chairman of the Board of Directors	F. W. Hamilton
President	D. R. Hamilton
Vice-President - Operations and Secretary	J. W. A. Darby
Treasurer	R. W. Greenwood
Assistant Secretary	J. A. Crofton

Bankers Bank of Montreal
Transfer Agent and Registrar The Royal Trust Company
Plant and Offices Head Office - 225 East Ave. N., Hamilton, Ontario

CONSOLIDATED

DECEMBER

ASSETS

1974

1973

CURRENT

Cash	\$ 478,894	\$ 458,357
Accounts receivable -		
Trade	420,832	316,063
Affiliated company (now incorporated)		26,091
Other	20,159	16,647
Marketable securities - at cost		
(market value - 1974 - \$347,145;		
1973 - \$481,280)	293,367	291,568
Inventories - at the lower of cost		
or net realizable value -		
Product	710,790	482,588
Supplies	78,837	61,114
Prepaid expenses	81,496	46,522
Estimated overpayment of		
income taxes		7,073

2,084,375

1,706,023

MORTGAGES RECEIVABLE

45,428

ADVANCES TO AFFILIATED COMPANY

30,000

FIXED (note 5)

Land, buildings, plant and equipment	3,004,978	2,641,813
Accumulated depreciation	1,593,877	1,427,341

EXCESS OF COST OF SHARES IN SUBSIDIARY
OVER VALUE OF NET ASSETS ACQUIRED

(at cost less accumulated amortization, Note 8)

37,497

\$3,578,401

\$2,950,495

APPROVED ON BEHALF OF THE BOARD

D. R. Hamilton, President

J. W. A. Darby, Director

IRY, LIMITED

BALANCE SHEET

31, 1974

LIABILITIES

	1974	1973
CURRENT		
Bank Loan	\$ 45,000	\$
Accounts payable and accrued liabilities	1,385,506	1,090,741
Managers' deposits	49,117	41,355
Estimated liability for income taxes	51,014	
Mortgages due within one year	26,777	
	<u>1,557,414</u>	<u>1,132,096</u>
LONG-TERM		
Mortgages payable (note 2)	112,613	131,449
Bank loans and advances (note 3)	150,000	100,000
	<u>262,613</u>	<u>231,449</u>
DEFERRED TAX LIABILITY	90,913	69,270

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 6)		
Authorized - (after conversions)		
32,435 Class "A" shares of no par value, cumulative, preferred dividends of 80¢ per share, convertible to Class "B" at the rate of 6 Class "B" for each Class "A"		
700,000 Class "B" participating shares of no par value, not to be issued for consideration greater than \$1,000,000		
87,500 common shares of no par value, not to be issued for consideration greater than \$400,000		
Issued and fully paid -		
32,435 Class "A" shares		
276,515 Class "B" shares and		
53,875 common shares	125,000	125,000
RETAINED EARNINGS	1,298,044	1,148,263
EXCESS OF APPRAISED VALUE OF FIXED ASSETS OVER DEPRECIATED COST	<u>244,417</u>	<u>244,417</u>
	<u>1,667,461</u>	<u>1,517,680</u>
	\$3,578,401	\$2,950,495

ROYAL OAK DAIRY, LIMITED

Consolidated Statement of Earnings

	1974	1973
SALES	\$13,489,568	\$11,148,336
COST OF SALES including selling, general and administrative expenses	12,797,354	10,620,016
GROSS MARGIN	692,214	528,320
PROVISION FOR DEPRECIATION AND AMORTIZATION	179,977	145,597
INTEREST ON LONG-TERM DEBT	32,108	22,683
	212,085	168,280
NET EARNINGS FROM OPERATIONS BEFORE INCOME TAXES	480,129	360,040
INCOME TAXES	231,809	156,664
NET EARNINGS FROM OPERATIONS	248,320	203,376
INCOME FROM MARKETABLE SECURITIES	19,873	17,992
	268,193	221,368
EXTRAORDINARY ITEM		
Gain on sale of fixed assets		30,183
NET EARNINGS FOR THE YEAR	268,193	251,551
NET EARNINGS PER PARTICIPATING SHARES (note 7)		
Before extraordinary item		
Basic	\$.74	\$.62
Fully diluted	.53	.43
After extraordinary item		
Basic	\$.74	\$.72
Fully diluted	.53	.49

ROYAL OAK DAIRY, LIMITED

Consolidated Statement of Changes in Financial Position

	1974	1973
SOURCE OF WORKING		
Operations -		
Net earnings for the year	\$ 268,193	\$ 251,551
Gain on disposal of fixed assets		30,183
	<u>268,193</u>	<u>221,368</u>
Depreciation and amortization	179,977	145,597
Increase in deferred income taxes	21,643	24,225
	<u>469,813</u>	<u>391,190</u>
Increase in bank loan	50,000	
Proceeds on disposal of fixed assets	26,661	78,575
	<u>546,474</u>	<u>469,765</u>
APPLICATION OF WORKING CAPITAL		
Additions to fixed assets	340,796	220,106
Reduction in mortgages payable	34,821	19,302
Dividends paid	97,698	49,491
Reduction of bank loans		130,000
Increase in mortgages receivable	38,828	
Purchase of subsidiary plus working capital deficiency of \$46,297 at acquisition (note 8)	81,297	
	<u>593,440</u>	<u>418,809</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(46,966)	50,956
WORKING CAPITAL - BEGINNING OF YEAR	573,927	522,971
WORKING CAPITAL - END OF YEAR	\$ 526,961	\$ 573,927

ROYAL OAK DAIRY, LIMITED

Consolidated Statement of Retained Earnings

	1974	1973
BALANCE - BEGINNING OF YEAR	\$1,148,263	\$ 981,704
Net earnings for the year	268,193	251,551
	<u>1,416,456</u>	<u>1,233,255</u>
Adjustment to record investment in subsidiary on equity basis (note 8)	20,714	
Dividends	97,698	49,491
Write-off of goodwill		35,501
	<u>118,412</u>	<u>84,992</u>
BALANCE - END OF YEAR	\$1,298,044	\$1,148,263

AUDITORS' REPORT

To the Shareholders of
Royal Oak Dairy, Limited,
Hamilton, Ontario

We have examined the consolidated balance sheet of Royal Oak Dairy, Limited and its subsidiaries as at December 31, 1974 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MacGILLIVRAY & CO.
Chartered Accountants

February 28, 1975

ROYAL OAK DAIRY, LIMITED

Notes to Consolidated Financial Statements

1. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The total direct remuneration paid to directors and senior officers of the company amounted to \$151,766 in 1974 and \$115,583 in 1973.

2. MORTGAGES PAYABLE

The company is liable for various mortgages with the major portion against retail store locations. Interest rates on these mortgages range from 7% to 10% and the latest maturity date is within the year 1978.

3. BANK LOAN

The long-term bank loan of \$150,000 is due December 1976. Marketable securities are pledged with the bank as security for the loan.

4. LEASE COMMITMENTS

The minimum annual rentals under leases for retail store locations amount to \$185,000. None of the leases extend for a period of more than ten years from the balance sheet date.

5. FIXED ASSETS AND ACCUMULATED DEPRECIATION

The fixed assets of the company were appraised at December 31, 1948 by Dominion Appraisal Company Limited. All subsequent additions have been recorded at cost. Accumulated depreciation was determined by the above appraisal with subsequent provision based on original cost of the assets.

6. CAPITAL

Class "A" shares are convertible to Class "B" shares at the rate of 6 Class "B" shares for each Class "A" share. During the year under review 1,190 Class "A" shares were converted into 7,140 Class "B" shares.

7. EARNINGS PER SHARE

1974 basic earnings per share have been calculated using a weighted average of outstanding participating stock during 1974. Fully diluted earnings per share assumes the conversion of all outstanding Class "A" shares to Class "B".

8. PURCHASE OF SUBSIDIARY

On April 9, 1974, the company purchased the remaining 50% interest in Astro Variety Limited together with a note due from that company for a total consideration of \$35,000. These financial statements reflect the consolidation of the accounts of Astro Variety Limited from April 9, 1974 as well as the charge to retained earnings of Royal Oak Dairy, Limited's share of accumulated losses while Astro Variety Ltd. was an affiliate. The excess of the cost of the investment over the value of the net assets acquired is being amortized against operations on a straight-line basis over a ten year period.

9. COMPANIES CONSOLIDATED

These financial statements include the accounts of the parent company, Royal Oak Dairy, Limited and its wholly-owned subsidiaries, Bantam Store Limited, Riverview Dairy Limited, and Astro Variety Limited.

Taste The Difference

ROYAL OAK DAIRY LIMITED
INTERIM REPORT
 JUNE 30, 1974

TO THE SHAREHOLDERS:

Unaudited consolidated net earnings of the Company for the six months ended June 30, 1974 are \$121,965. Both the Bantam Store and Dairy divisions show higher profitability relative to sales despite major increases in costs. These profits are real and are not created by the rising values of unsold merchandise, for Bantam Store inventory "turns" or is sold monthly while the Dairy inventory of milk "turns" daily. We anticipate a continuing increase in profits for the balance of the year.

In April, we bought the outstanding shares of Astro Variety stores and a vigorous expansion of this chain is well underway beyond its three present locations.

We have found that new shopping plazas have both a Bantam jug milk store and a variety, usually an independent. The Astro variety company will enable us to take both locations and to capture these additional retail sales dollars in the trading area. This Company is not consolidated in the statements below.

On behalf of the Board of Directors.

August 26, 1974
 Hamilton, Ontario

D. R. Hamilton,
 President.

CONSOLIDATED STATEMENT OF EARNINGS
FOR THE SIX MONTHS ENDED JUNE 30, 1974
 (Unaudited)

	1974	1973
Sales	\$6,035,876	\$5,401,568
Cost of Sales	3,997,528	3,819,138
Gross Profit on Sales	2,038,348	1,582,430
Selling, General and Administrative Expenses	1,805,655	1,415,300
Net Earnings Before Taxes on Income	232,693	167,130
Provision for Taxes on Income	110,728	68,701
NET EARNINGS	\$ 121,965	\$ 98,429
NET EARNINGS PER CLASS B AND COMMON SHARE (NOTE 1)		
Actual	\$.34	.27
Fully Diluted	.24	.19

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS		
Funds from Current Operations	\$ 196,171	\$ 170,003
Sale of Fixed Assets	NIL	9,556
Profit on Sale of Securities	NIL	89
	<u>\$ 196,171</u>	<u>\$ 179,648</u>
APPLICATION OF FUNDS		
Reduction in Bank Loans	\$ 40,000	\$ 50,000
Dividend Payments	63,866	36,209
Purchase of Fixed Assets	87,365	132,220
Mortgage Payments	2,825	3,928
Purchase of Shares in Astro Variety Ltd.	35,000	NIL
	<u>\$ 229,056</u>	<u>\$ 222,357</u>
DECREASE IN WORKING CAPITAL	\$ 32,885	\$ 42,709

NOTES TO FINANCIAL STATEMENT

1. 1974 earnings per share have been calculated using the total of outstanding participating stock at June 30, 1974. Fully diluted earnings per share assumes the conversion of all outstanding Class "A" shares to Class "B".

